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WEITERE INFORMATIONEN OK

An unending variety of topics

Thursday, January 26, 2006

E-gold challenges forfeiture

The U.S. government has confiscated some e-gold related funds on the pretext of failure to obtain a license as a "money transmitter," as Ian Grigg reports. Apparently e-gold has already had to put up with "approximately 300 summonses, subpoenas, and other requests for information." Unless they are counting routine stuff, that sounds rather like harassment. The feds are arguing that the U.S. portion of e-gold, G&SR, is a "money transmitter" even though the U.S. Treasury has refused to recognize e-gold as a "currency."

Thanks to the out-of-control Washington D.C. bureaucracy, the U.S. is becoming a poor place to do business if you have an innovative business that rubs some people in D.C. the wrong way. For example, if you claim that you have a new form of money that competes with inflating U.S. dollars.

Another thing that may rub feds the wrong way is the embarrassing fact that e-gold has appreciated by over 100% compared to the U.S. dollar since 1999. In other words, if you held $1,000 worth of e-gold since 1999, it would be worth over $2,000 now. It's closer to the truth to say that the dollar is worth about half what it was in 1999 than to say that e-gold is worth twice as much. Which currency is the funny money?

Interestingly, Yahoo Finance considers gold (although not e-gold in particular) to be a "currency" for the purposes of their currency converter.

Posted by Nick Szabo at 7:06 PM

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About Me

Nick Szabo

"A premier thinker about history, law and economics, and the lessons they have for security." -- Adam Shostack, Emergent Chaos

"Szabo comes out with these essays that leave me in awe." -- Brian Dunbar

"Reading material that is eclectic, challenging and endlessly fascinating." -- Sean McGrath, Propylon

"Like most blogs worth my attention, this blog is updated only infrequently. That is because the authors of blogs worth my attention only post when they have something to say that is true, relevant and not already known by their audience. Most of the human race does not have the skill to know when an idea has these three properties. The skill is particularly rare in the fields of politics and economics, which is why this blog is such a rare and valuable thing." -- Richard Hollerith

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5 comments:

Mike Huben said...

Why do I have the feeling that these statements could have been made by Ponzi? Or by Enron? Or Long Term Capital Management? Or the savings and loan industry?

Perhaps it's because the defensive strategy is to cast aspersions on the government, as if some unrelated fault of government proves innocence of those under investigation?

It's possible that e-gold will end up as a successful new financial instrument in the long term. Experimental creation of new institutions is important. Some will prove risky, and some will prove fraudulent. Vigilance for excessive riskyness or fraud is a worthwhile goal.

If you think money transmitters should not have oversight, perhaps you should consult law enforcement agencies the world around. At the very least, oversight and regulation are needed to prevent evasion of taxes. And movement of money can be used as a proxy to detect many other illegal activities.

It's well and good to create new tools for society to use. However, society will have other uses and disuses for them, based on other interests than those of their creators.

11:09 AM

Nick Szabo said...

The burden of proof in criminal cases is on the government, Mike. Here they came nowhere near meeting this burden. That is why I "cast aspersions" on the fed's handling of this case. My comments are directed at the prosecutors themselves, and to the politicians and voters who uncritically support them, not to any potential jury in this case. Every time prosecutors screw up like this, they do indeed make it easier for real criminals to get away with fraud. Making this kind of case against an innocent (as far as we can tell from their complaint) and innovative company reduce the "ethos" of the Justice Department (see Aristotle). It also reduces American competitiveness, as it encouragers innovative companies to base themselves overseas.

As for for fraud, the company still has a strong incentive, both for business reasons and because of other laws they and their customers must follow involving tax, fraud, etc. not to allow their system to be used for such things. Protection against fraud does not require grossly disproportionate seizures without trial for mere alleged failure to figure out, given the confusing information provided to them by Treasury, what the proper licenses they need. Vigilance against fraud is worthwhile, and e-gold already has strong incentives to exercise such vigilance itself, but the irrational fear, which rather than protection against fraud is what the Justice Department seems to have an incentive to generate, is very destructive of efforts to provide innovative solutions to fraud, inflation, and other ills of commerce.

2:52 PM

lang said...

On the issue of the 300 claimed subpoenas - I'd say this is not really evidence of harrassment, as it probably does represent a level of "interesting activity" in the e-gold system. To my knowledge, the various ponzi schemes and games and scams started up in late 1999, and have maintained a dull roar since then.

Your other comment on the burden of proof is conceptually on the money. As far as I can see, the government has not as yet established anything like a strong or obvious case. OTOH, ML cases are easy; it seems to me that in such cases of government *versus* suitcase of seized money, the burden of proof is reversed by some sleigh of hand.

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4:52 AM

Mike Huben said...

"Every time prosecutors screw up like this, they do indeed make it easier for real criminals to get away with fraud. Making this kind of case against an innocent (as far as we can tell from their complaint) and innovative company reduce the "ethos" of the Justice Department (see Aristotle). It also reduces American competitiveness, as it encouragers innovative companies to base themselves overseas."

Ah, I wasn't aware that you were perfect and omniscient, and expected prosecutors to be so as well. That must explain why you think subpoenas are unnecessary.

"As for for fraud, the company still has a strong incentive, both for business reasons and because of other laws they and their customers must follow involving tax, fraud, etc. not to allow their system to be used for such things."

All true of Ponzi, Enron, and the savings and loan industry. And Millikan, Abrahamoff and any number of other folks who have since been proven guilty. One set of incentives does not establish innocence: somebody might attempt to get rich quick and trash the system in the process. The question of interest is what it takes to make the system robustly able to resist such defectors. Any new system may have multiple vulnerabilities, and should have strong oversight from disinterested or even antagonistic parties. As David Brin would say, CITOKATE.

4:51 PM

Anonymous said...

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3:10 AM

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